

Audit report

REPORT OF THE AUDITOR-GENERAL TO PROVINCIAL LEGISLATURE AND THE
COUNCIL ON THE GREATER TZANEEN MUNICIPALITY

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REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Greater Tzaneen Municipality, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, and the accounting officer's report, as set out on pages xx to xx.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Property, plant and equipment

7. The Standards of Generally Recognised Accounting Practice, GRAP 17, *Property, plant and equipment* requires that each part of property, plant and equipment with a cost that is significant in relation to the total cost of the item be depreciated separately. Not all assets

disclosed in note 11 to the financial statements were depreciated separately in terms of the above requirement. Consequently, I could not determine the effect on the depreciation amount of R96 748 083, accumulated depreciation of R381 432 453 and the value of the carrying amount for property, plant and equipment stated at R1 460 429 025 in the financial statements

8. The nature of the municipality's accounting records did not facilitate an easy identification and location of assets recorded in the financial statements. There were a significant number of assets which I identified that were not included in the accounting records of the municipality. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself over the existence, valuation and allocation and completeness of the tangible capital assets balance stated at R1 460 429 025 (2010: R1 449 245 834) in note 11 to the financial statements.
9. The property, plant and equipment balance of R1 460 429 025 (2010: R1 449 245 835), as disclosed in note 11 to the financial statements, does not agree to the balance of R1 426 161 833 (2010: R1 360 206 139) per the underlying accounting records. The entity did not reconcile the difference of R34 267 192 (2010: R89 039 697) between the financial statements and accounting records. As a result of the matters reported above, I could not determine the effect on property, plant and equipment and other account balances or classes of transactions in the financial statements.

Trade and other payables

10. The municipality could not provide sufficient appropriate audit evidence to support an amount of R7 716 280 included in accounts payable as well as an amount of R6 700 293 included in VAT payable disclosed in notes 6 and 7 to the financial statements respectively. The entity's records did not permit the application of alternative audit procedures regarding these amounts. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, valuation and allocation of and obligations pertaining to these balances included in trade and other payables.

Revenue

11. The Standards of Generally Recognised Accounting Practice, GRAP 3, *Accounting policies, Changes in accounting estimates and errors* requires that an error must be adjusted for retrospectively and that the opening balance be restated for the earliest period presented. Of the total prior period errors amounting to R21 202 485 were identified and corrected by the municipality. Furthermore, an amount of R7 303 958 was recognised as revenue in the year under review instead of accumulated surplus. Had these corrections been correctly classified, unspent conditional grants and receipts would have been stated at R6 017 523 (2010: R475 457) and accumulated surplus would have been increased by R4 730 486 (2010: R17 195 532).

Investment Property

12. The Standards of Generally Recognised Accounting Practice, GRAP 3, *Accounting policies, Changes in accounting estimates and errors* requires that an error must be adjusted for retrospectively and that the opening balance be restated for the earliest period presented. The corresponding amount for investment property amounting to R158 016 830, as a result of an error discovered in the year under review, was not restated and disclosed on the face of the statement of financial position as per the above requirements. Consequently, the

corresponding figure for investment property is understated by R158 016 830 The effect on other account balances and classes of transactions could not be determined

Cash flow statement

13. Presentation of the cash flow statement, summarising the entity's operating, investing and financing activities, is required by Standards of Generally Recognised Accounting Practice, GRAP 2, *Cash flow statements*. I was unable to verify the accuracy of net cash flows from operating activities and net cash flows from investing activities. The entity could not provide sufficient appropriate audit evidence to support an amount of R833 134 included in net cash generated from operations as disclosed in note 34 to the financial statements. Furthermore an amount of R62 378 191 included in net cash flows from investing activities could not be reconciled to Note 11 to the financial statements .

Trade and other receivables

14. The municipality could not provide sufficient appropriate audit evidence to support an amount of R16 568 067 included in other receivables, disclosed in note 17 to the financial statements. The entity's records did not permit the application of alternative audit procedures regarding this amount. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, valuation and allocation of and rights pertaining to this balance included in other receivables.

Qualified opinion

15. In my opinion, except for the possible effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Greater Tzaneen municipality as at 30 June 2011 and its financial performance and cash flows for the year then ended, in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the MFMA.

Emphasis of matter

16. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Irregular expenditure

17. With reference to note 37 to the financial statements, the municipality incurred irregular expenditure of R1 251 503 due to deviation from the supply chain management prescripts.

Fruitless and wasteful expenditure

18. With reference to note 37 to the financial statements, the municipality incurred fruitless and wasteful expenditure of R168 166 as a result of incurring interest on late payments.

Additional matter

19. I draw attention to the matter below. My opinion is not modified in respect of this matter:

Unaudited supplementary schedules

20. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

21. In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages xx to xx and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives

Usefulness of information

22. The reported performance information was deficient in respect of the following criteria:

- Consistency: The reported objectives, indicators and targets are not consistent with the approved integrated development plan

The following audit findings relate to the above criteria:

23. Key performance indicators and performance targets of the municipality reported in the annual performance report were inconsistent with the indicators and targets documented in the integrated development plan.

Reliability of information

24. The reported performance information was deficient in respect of the following criteria:

- Validity: The reported performance did not occur and does not pertain to the entity.
- Accuracy: The amounts, numbers and other data relating to reported actual performance have not been recorded and reported appropriately.
- Completeness: All actual results and events that should have been recorded have not been included in the reported performance information.

The following audit findings relate to the above criteria:

25. The reported targets mentioned below which are material by nature and amount, the validity, accuracy and completeness of the reported target could not be established as sufficient appropriate audit evidence and or relevant source documentation could not be provided :

- percentage of households with access to basic level of electricity,
- percentage of households with access to basic level of water,
- percentage of households with access to basic level of solid waste removal and
- percentage of households with access to basic level of sanitation,

Compliance with laws and regulations

Expenditure management

26. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.

27. The accounting officer did not take reasonable steps to prevent irregular, fruitless and wasteful expenditure as required by section 62(1)(d) of the MFMA.

Procurement and contract management

28. Awards were made to providers based on criteria that differed from those stipulated in the original bid documents as per the requirements of SCM regulation 28(1).

INTERNAL CONTROL

29. In accordance with the PAA and in terms of General notice 1111 of 2010, issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

- The accounting officer did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls
- The accounting officer did not develop and monitor the implementation of action plans to address internal control deficiencies

Financial and performance management

- The accounting officer did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting
- The accounting officer did not implement controls over daily and monthly processing and reconciling of transactions
- The accounting officer did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information
- The accounting officer did not review and monitor compliance with applicable laws and regulations
- The accounting officer did not design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.

Governance

- There was no audit committee for a period of six months during the year under review.

Auditor-General

Polokwane

30 November 2011



AUDITOR-GENERAL
SOUTH AFRICA

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